

Message Text

CONFIDENTIAL

PAGE 01 CARACA 11417 041300Z

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ACTION SS-25

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C O N F I D E N T I A L CARACAS 11417

EXDIS

EO 11652: GDS
TAGS: ENRG VE
SUBJ: OIL REVERSION - GULF

REF: CARACAS 10727

1. SUMMARY. MENE GRANDE PRESIDENT, BERNARDO DIAZ, BRIEFED THE AMBASSADOR OCTOBER 30 ON THE DETAILS OF HIS COMPANY'S ACCEPTANCE OF THE GOV COMPENSATION OFFER. HE STATED THAT IT WAS NOT UNTIL 4:00 PM PITTSBURGH TIME ON THE OCTOBER 28 DEADLINE THAT GULF MADE ITS DECISION TO ACCEPT. THE GULF LETTER DID NOT REFER TO THE TECHNICAL SERVICE FEE OFFERED BY THE GOV, AND THE COMPANY ELECTED NOT TO INITIAL ANY AGREEMENTS AT THE TIME OF ACCEPTING THE COMPENSATION OFFER. GULF CONSIDERS THE TECHNICAL SERVICE AND OIL OFFTAKE CONTRACTS AS METTERS WHICH ARE STILL OPEN TO FURTHER NEGOTIATION. DIAZ HAS ADVANCED THE ARGUMENT TO GULF PITTSBURGH OFFICIALS THAT THE TRUE FEE BEING OFFERED BY THE GOV IS NOT OUT OF LINE WITH THE COMPANY'S NEGOTIATIONS IN KUWAIT. THIS TELEGRAM IS BASED ON PROPRIETARY INFORMATION GIVEN THE EMBASSY IN CONFIDENCE AND NOT FOR DISSEMINATION TO THIRD PARTIES. END SUMMARY.

2. BERNARDO DIAZ DESCRIBED OCTOBER 28 AS A CLIFF HANGER FOR HIM WITH THE SIGNALS FOR PITTSBURGH CONTINUING TO CHANGE UNTIL 4:00 PM WHEN THE DECISION TO ACCEPT THE COMPENSATION OFFER WAS FINALLY TAKEN. MENE GRANDE WAS THE LAST COMPANY TO DELIVER ITS ACCEPTANCE TO THE MINES MINISTER. THE ACCEPTANCE LETTER WAS FAIRLY BRIEF - THE FIRST PARAGRAPH
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PAGE 02 CARACA 11417 041300Z

STATED THE COMPANY ACCEPTED THE OFFER; THE SECOND

PARAGRAPH NOTED THAT, "NOTWITHSTANDING THE ACCEPTANCE", THE COMPANY DID NOT RECOGNIZE THE PRINCIPLE OF DEDUCTIONS FOR OIL DRAINAGE AND CERTAIN OTHER DEDUCTIONS; AND THE FINAL PARAGRAPH REFERRED TO THE COMPENSATION BONDS, WHICH THE COMPANY HOPED IT WOULD BE ABLE TO UTILIZE FOR PAYMENT OF A PERCENTAGE OF OIL PURCHASES AS DISCUSSED WITH THE GOV, AND THE GUARANTY FUND PROVISIONS.

3. DIAZ SAID THAT THE ACCEPTANCE LETTER WAS APPENDED TO A SECOND LETTER WHICH WENT INTO MORE DETAIL ABOUT POINTS WHICH GULF FEELS HAVE NOT BEEN RESOLVED. IT REFERS GENERALLY TO THE NEGOTIATIONS FOR A TECHNICAL SERVICE AGREEMENT AND AN OIL PURCHASE AGREEMENT. BY NOT MENTIONING THE 12 CENT FEE WHICH THE GOV HAS OFFERED, DIAZ BELIEVES THE DOOR IS STILL OPEN TO FURTHER NEGOTIATIONS DURING WHICH GULF WILL ATTEMPT TO OBTAIN THE SAME FEE OFFERED CREOLE AND SHELL. DIAZ DESCRIBED THE 12 CENT FEE OFFER AS ONE OF THE MAIN POINTS OF IRRITATION FOR THE PITTSBURGH HOME OFFICE. HE SAID THAT GULF DOES NOT VALUE ITS TECHNOLOGY AS INFERIOR TO EXXON, AND DOES NOT WANT THE IDEA TO CIRCULATE IN THE INTERNATIONAL COMMUNITY THAT GULF IS WILLING TO ACCEPT A SECOND POSITION.

4. REGARDING THE TECHNICAL SERVICE FEE, DIAZ AGAIN SAID THAT HE CONSIDERS THE TRUE FEE TO BE MORE THAN 12 CENTS PER BARREL (AS WE REPORTED IN CARACAS 10378). GULF WOULD RECEIVE 12 CENTS FOR 400,000 B/D (300,000 B/D PRODUCTION AND 100,000 B/D REFINERY THROUGHPUT). THUS, THE GULF FEE ON THE PROPOSED PRODUCTION OF 300,000 B/D WOULD BE 12 CENTS PER BARREL, PLUS THE ADDITIONAL REFINING FEE ON A VOLUME EQUAL TO ONE-QUARTER OF THE 400,000 B/D TOTAL, GIVING A NET FEE OF 15 CENTS PER BARREL WHEN CALCULATED AGAINST PROPOSED PRODUCTION. HOWEVER, DIAZ POINTED OUT THAT GULF ITSELF WILL ONLY LIFT ABOUT 180,000 B/D AFTER NATIONALIZATION, AND IT EXPECTS TO MAKE DEALS WITH ITS MENE GRANDE PARTNERS (IPC AND SHELL) TO CONTINUE EXISTING ARRANGEMENTS TO LIFT THE REMAINING PRODUCTION. DIAZ STATED THAT WHEN THE TECHNICAL SERVICE FEE IS RELATED TO PROPOSED OFFTAKE, IT IS BETTER THAN 20 CENTS PER BARREL.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CARACA 11417 041300Z

5. DIAZ STATED THAT THE GOV WILL PAY A GROSS FEE OF PERHAPS 30-40 CENTS CALCULATED IN EACH CASE TO NET THE AGREED-UPON PER-BARREL FEE FOR THE COMPANY CONCERNED. AL EXPENSES AND SALARIES WILL COME OUT OF THE GROSS FEE PLUS DEDUCTIONS FOR TAXES. IN GULF'S CASE THE REMAINING AMOUNT WOULD BE 12 CENTS NET, FREE AND CLEAR TO THE COMPANY. WHILE DIAZ REPEATED THAT GULF INTENDS TO CONTINUE PRESSING FOR PARITY WITH CREOLE, HE ALSO NOTED THAT GULF'S SENIOR OIL BUYER HAD STUDIED THE FEE STRUCTURE

THE GOV HAS OFFERED AND AGREED THAT IT COMPARES FAVORABLY WITH THE GULF DEAL BEING PROPOSED IN KUWAIT.

6. DIAZ CONCLUDED WITH THE COMMENT THAT HE BELIEVES THE MAIN ISSUE IS NOT THE TECHNICAL SERVICE FEE, BUT THE OIL PRICE NEGOTIATIONS.

HE SAID THE MINISTER OF MINES HAS INDICATED THAT THE OPERATING COMPANIES WILL NET 25 CENTS A BARREL. BUT WORKING BACK FROM THAT FIGURE, USING THE CURRENT PRICE LEVEL AND ALLOWING FOR THE FEES TO BE PAID THE COMPANIES, MENE GRANDE'S TECHNICIANS CALCULATE THAT VENEZUELAN OIL WOULD HAVE TO BE OVERPRICED. DIAZ BELIEVES THE CRUCIAL BARGAINING BETWEEN THE COMPANIES AND THE GOV WILL FOCUS ON THIS QUESTION.

7. COMMENT: AS DIAZ INDICATED, THE NEGOTIATIONS ARE FAR FROM OVER. ALTHOUGH TECHNOLOGY AND OFF-LIFT CONTRACTS HAVE BEEN INITIALED IN SOME CASES, FINAL SIGNATURE WILL APPARENTLY NOT TAKE PLACE IN ANY CASE UNTIL AFTER JANUARY 1. IN ADDITION, A NUMBER OF INDIVIDUAL COMPANY PROBLEMS ARE LIKELY TO SPILL OVER FROM THIS RATHER DISORDERLY PROCESS INTO THE POST-NATIONALIZATION PERIOD. THE DEPARTMENT WILL WISH TO KEEP IN MIND THE VERY DISTINCT POSSIBILITY THAT THE GOOD OFFICES OF THE USG MAY BE REQUIRED IN THESE MATTERS FROM TIME TO TIME FOR SOME MONTHS TO COME.
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